BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF VAIL WATER COMPANY FOR AUTHORITY TO ISSUE PROMISSORY NOTE(S) AND OTHER EVIDENCE OF INDEBTEDNESS PAYABLE AT PERIODS OF MORE THAN TWELVE MONTHS AFTER THE DATE OF ISSUANCE.

DOCKET NO. W-01651B-99-0351

IN THE MATTER OF THE APPLICATION OF VAIL WATER COMPANY FOR A RATE INCREASE.

DOCKET NO. W-01651B-99-0406

DECISION NO. 62450

OPINION AND ORDER

DATE OF HEARING: February 3 and 4, 2000

PLACE OF HEARING: Tucson, Arizona

PRESIDING OFFICER: Jane L. Rodda

APPEARANCES: Richard L. Sallquist, SALLQUIST & DRUMMOND, P.C., on behalf of Vail Water Company;

Monique Davis, in propia persona, Intervenor; and

Robert Metli, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

On June 18, 1999, Vail Water Company ("Applicant" or "Company") filed with the Arizona Corporation Commission ("Commission") a rate application and a finance application. On July 19, 1999, the Commission's Utilities Division Staff ("Staff") filed a letter notifying the Company that its application met the sufficiency requirements outlined in A.A.C. R14-2-103 and classifying the Company as a Class C utility. By Procedural Orders dated September 28, 1999, and October 20, 1999, the Commission consolidated the matters. A hearing on the consolidated matter was held in Tucson, Arizona on February 3 and 4, 2000, pursuant to the schedule established by Procedural Order dated August 19, 1999. Prior to the commencement of the hearing, Monique Davis, a residential customer of Vail, was granted intervention.

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Background

Vail provided water utility service to approximately 594 customers as of the end of the test year, December 31, 1998 ("TY"), in an area located southeast of Tucson in Pima County, Arizona. By November 30, 1999, the Company had 770 customers. Staff determined that the Company experienced an average annual increase of 115 customers over the past three years. The Company's current rates and charges were authorized in Decision No. 61110 (August 28, 1998), based on a test year ended December 31, 1996.

The Company operates two separate systems. At the time of the Engineering Staff Report, the north system served approximately 27 residential customers through Well No. 6. The south system served approximately 630 customers through Well No. 3. The Company is in the process of designing an interconnect between the north and south systems to increase reliability and provide another source of water to the south system. A 3,500 home planned community with golf course is planned in the area of the north system. There are smaller developments being planned in the southern portion of the system.

Engineering Staff reported that in the TY the Company experienced a water loss of 16 percent. Engineering recommended that the Company reduce its water loss to less than 10 percent within one year of this Decision, and that if water loss cannot be reduced to less than 10 percent, the Company must submit justification to the Utilities Division Director as to why doing so would not be cost effective.

In its finance application, Vail sought approval to borrow $819,000 from the Water Infrastructure Finance Authority of Arizona ("WIFA") for the purpose of making needed upgrades to its water delivery system, including building a chlorination facility at Well No. 6 and connecting Well No. 6 to the southern portion of the system; upgrading two booster stations and rebuilding another; and construction of 6,700 feet of 12 inch distribution line to replace an inadequately sized 6 inch line. Vail also sought authority to convert $150,000 in short term notes owing to shareholders into long term debt, payable over twenty years and to authorize additional long term borrowing from shareholders in the amount of $143,000 to cover anticipated operating losses during the pendancy of the rate case proceeding. The Company subsequently reduced its financing request to the $819,000 WIFA loan and $58,340 from shareholders.

In its simultaneously filed rate application, Vail claimed that in the TY it had a net operating loss of $177,279, and that its revenues were not sufficient to support the proposed indebtedness needed to make the necessary improvements to its system. Initially, the Company sought rates that would generate total revenues of $662,054 and result in a net operating income of $121,555, which would produce an 11.61 percent rate of return on the Company's proposed adjusted rate base of $1,046,978.

Staff determined that in the TY, Vail had adjusted total revenues of $343,697 and an operating loss of $117,504. Staff recommended a revenue level of $433,920, which based on adjusted operating expenses of $382,841, would yield operating income of $51,079, a 37.9 percent rate of return on an adjusted original cost rate base of $134,716. Staff recommended approval of the WIFA loan, but did not recommend approving additional long term borrowing from shareholders. Because of the Company's relatively small rate base, Staff recommended a revenue level to provide Vail with a Debt Service Coverage ("DSC") of 1.2, which is required to qualify for the WIFA financing. Staff's recommended revenue level is a 26.25 percent increase over adjusted TY revenue.[1]

In the course of the proceeding, Vail modified its revenue request, ultimately requesting a phased-in rate increase. In Phase 1, commencing approximately with the completion of the improvements to Well Nos. 6 and 3 in July 2000, the Company sought total revenues of $501,800, an increase of 46 percent over Staff's adjusted TY revenues. In Phase 2, commencing approximately April 2001, with the completion of the remaining projects, the Company sought total revenues of $548,685, an additional 11 percent increase. Overall, the Company sought a total increase in revenues of 57 percent.

A significant number of Vail's customers appeared at the public comment held prior to the hearing. Most of the customers who spoke were greatly concerned about the number of rate increases

[1] Staff's recommendations include a CAP Hookup Fee of $1,000 per new customer, but Staff did not treat these fees as revenue, but rather as a deferred credit. Vail agreed to the CAP Hook-up Fee but accounted for the expected fees as revenue. Consequently, it is unfair to compare Staff's recommended revenue increase with the Company's without considering the CAP Hook-up Fee.

they have experienced in recent years and were troubled by the current request which they believed was too high. Some customers also complained about poor service quality. Customers also questioned whether the proposed upgrades were needed to serve current customers or were being instituted to accommodate future growth. During and subsequent to the public comment, the customers presented the Commission with a petition signed by over 300 residents protesting the amount of the increase.

Finance Application

The Company has requested authorization to borrow $819,000 from WIFA for the following capital improvements:

Rebuild Chlorination facility at Well No. 6	$81,000
Rebuild Andrada Booster Station	$85,000
Water Plant No. 2 – Booster station & transfer upgrade	$161,000
Install 6,700 ft of 12" main to upgrade from 6"	$192,000
Interconnect Well No. 6 with south system	$300,000
	$819,000

Staff considered these improvements to be necessary and important to improving the reliability and quality of service to all customers. Staff also believed that the cost estimates were reasonable.

At the hearing, the intervenor, a residential customer of Vail, questioned the Company witnesses extensively about whether the improvements were necessary to provide reliable service to existing customers or whether the improvements were required to permit growth. In particular, the Intervenor questioned how much of the money needed for the required improvements should come from current customers and how much from future growth customers.

Our Decision No. 62241 (January 12, 2000) which approved an extension of Vail's CC&N, also approved an Annexation Participation Agreement between the Company and property owners located within the extension area. The annexation Participation Agreement provided that the extension area property owners would provide $175,000 "to pay for upgrades to Well Nos. 3 and 6 and to provide trenching to loop the two wells plus the costs of any boosters, pumps, electrical and water required to complete the upgrades." Thus, it appears that at least a portion of the improvements to Well Nos. 3 and 6 that would have been provided with WIFA funds will be funded with monies provided by property owners in the extension area.

At the hearing the Company argued that there are additional capital improvement projects that WIFA could and would fund in the event one of the approved projects receives funding from a different source. After the hearing, the Company submitted a list of four alternate projects to be funded with WIFA money.[2] Staff reviewed the projects which totaled $302,800, and found them to be reasonable and acceptable improvements that would benefit Vail customers. Staff further opined that the cost estimates were reasonable.

A witness from WIFA testified that in the event a borrower did not utilize its full commitment from WIFA for the projects WIFA has committed to fund, whether that borrower could substitute other capital projects would depend on whether the additional projects were within the same priority level as the original projects. At this time, there is no evidence that WIFA would assign the same priority to the alternate projects submitted post-hearing by Vail. Nor was there testimony concerning which project(s) of the four would be funded if there was an extra $175,000 available. It is not reasonable or prudent for the Commission to grant authority to borrow funds without knowing which projects will be funded. Consequently, we authorize Vail to borrow up to $644,000 ($819,000 – $175,000) from WIFA for the purpose of constructing the facilities set forth in the Finance Application. There was testimony that these improvements are needed to maintain service quality for current customers but will also be required for future growth. We believe that funding these improvements through a combination of borrowing and contributions is an appropriate mix of funding sources from current and future customers.

The Company has also requested approval to borrow $58,340 from shareholders for the acquisition of a truck and for capitalized engineering costs. Staff recommended that the Commission deny the $58,340 loan request because based on the prospective WIFA borrowings of $819,000, Staff believed the Company was too highly leveraged to warrant additional debt. Based upon our approval of a smaller WIFA loan, we will approve the shareholder loans in the amount of $58,340. The funds

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[2] The alternate projects include a chlorination facility at Well No. 3 for $31,000; telemetry control system at Well No. 3 and Well No. 2, Andrada booster station, Shasta Booster Station and Water Company Master Base Unit for $73,000; Backup generator for transfer station generators for $144,000, and 338- Zone Transfer/Booster Station 20% Allocation for $54,800.

were utilized for capital expenditures which benefited the rate payers and the total combined debt and debt service obligation is lower than recommended by Staff. We will expect, however, that in the future, Vail seek Commission approval prior to issuing long-term notes, and we reiterate prior statements that it is not the policy of this Commission to approve debt financing for operating shortfalls.

The WIFA loan, with a 20 year term and interest rate of 6.25 percent, would have an annual debt service (principal, interest and reserve) of $67,946. The shareholder loans, with 20 year terms and 10.25 percent interest rate, would have an annual debt service requirement of $6,872. Staff recommended that a monthly surcharge per customer be set aside in a separate interest bearing account to be used solely for the purpose of servicing the WIFA debt. We concur with Staff. Based upon our authorized amount of WIFA financing, we will require that Vail deposit $6.92 per customer per month in such account to be used for repaying the WIFA loan.

Rate Application

The issues in the rate case involved: 1) the Company's proposal to include plant not yet constructed in rate base after Staff's verification that the plant was in service; 2) whether to include past Central Arizona Project ("CAP") expenses in rate base as a prepaid expense; 3) whether to calculate property taxes based on a forward looking or historic approach; 4) whether to include depreciation on the plant to be constructed in operating expenses; 5) how much of CAP operating charges should be approved on the income statement; and 6) how to calculate the Debt Service Coverage ratio used to determine required revenue levels.

Rate Base

Vail requested that the Commission approve a rate increase, but defer its implementation until the plant to be constructed with WIFA financing is in service. Under the Company's plan, Phase 1 rates would go into effect after the installation of the chlorination facilities at Well No. 6 and the completion of the interconnect of Well Nos. 3 and 6, and after Staff certified that the plant was used and useful. However, the Company's plan appears to determine the amount of plant and the rates in advance. Vail believed this approach would allow it to secure the WIFA financing but avoid the expense of another rate case in a short period of time for the purpose of including the new plant in rate base. In addition, the Company argued, ratepayers are benefited because they don't pay the increased rates until the new plant is in service and the phase-in approach lessens the immediate burden on current rate payers. The Company also sought approval of the depreciation associated with the yet to be built plant in operating expenses.

As its final position, Vail requested a total Rate Base of $1,026,474. The Company's request included $2,979,430 in gross plant in service, which included Phase 1 plant of $353,522 and Phase 2 plant of $466,479. The Company also sought to include Prepaid CAP Water Rights of $70,188 and an Allowance For Working Capital of $40,728.

Staff recommended a rate base of $134,716, which in pertinent part would be comprised of gross utility plant of $2,160,430, and Allowance For Working Capital of $38,158. The Company and Staff agreed on figures for accumulated depreciation ($500,987), net Contributions In Aid of Construction ("CIAC") ($183,005), Advances in Aid of Construction ($1,341,985) and Meter Deposits ($37,895). The major difference between Staff and the Company is, of course, the inclusion of the yet to be constructed plant in Rate Base. The difference in the Allowance of Working Capital is due to the differences in the Company's proposed and Staff's recommended operating expenses.

Staff opposed the Company's proposal because it departs from the traditional rate-making approach of an historic test year used by the Commission. Staff recommended that the Commission approve the WIFA financing and recommended rates that would produce sufficient revenues that in Staff's opinion would permit the Company to qualify for the WIFA loan. Consistent with its recommendation not to include the WIFA plant in rate base, Staff did not recommend including the related depreciation expense in operating expenses.

Staff also opposed the Company's inclusion of Prepaid Water Rights in rate base because there was no benefit to ratepayers in the years when the expense was incurred. Furthermore, Staff asserted, the Company's CAP allocation of 786 acre feet is substantially higher than the current demand for water. Although it did not include the Prepaid Water Rights in rate base, Staff did allow amortization of this expenditure over twenty years.

We concur with Staff's treatment of the proposed plant to be constructed with WIFA financing. The Commission has historically dealt with the issue of providing sufficient revenue for new plant construction by approving the financing and required revenue and then making the rate increase subject to refund in the event the plant is not installed within a reasonable time period. We do not see a need to deviate from that approach in this case. Furthermore, Staff's approach is the more financially sound. Although increased rates will be effective a few months earlier, the rates we approve herein will provide the funds needed to repay the WIFA debt and we will not have to address the question in the future of what happens if the Company has not constructed the plant as quickly as it anticipates, or the expected costs differ from current estimates. Moreover, there is no evidence that WIFA would agree to release funds to make the needed improvements in advance of the rates to make repayments being in place.

We also concur with Staff's position concerning Prepaid Water Rights for the same reasons Staff advanced. Finally, based on our approval of operating expenses, as recommended by Staff, we determine the correct level of Working Capital using the formula method to be $38,158. As a result, we approve an OCRB of $134,716.

Revenue and Expenses

Vail and Staff concurred that in the TY, Vail's present rates yielded metered sales of $340,358 and other operating revenue of $3,341, resulting in total operating revenue of $343,697. The Company requested total operating revenue of $548,685.[3] In its final position, Staff recommended rates that would produce total operating revenue of $433,920. Staff also recommended that new customers be assessed a $1,000 fee to be applied toward the Company's CAP costs. Staff recommended that the CAP Hook-up Fee be treated as a deferred credit. Vail agreed to the CAP Hook-up fee, but believed that it should be accounted for as revenue.

Vail has accepted a number of Staff's adjustments to operating expenses, however, the parties did not agree on the amount of CAP expenses, property taxes, or depreciation.

CAP Expenses

Vail has a CAP allocation of 786 acre feet for a cost of $84,888 per year. In past years, the Company has not been allowed to recover the costs of its CAP allocation from ratepayers because the

[3] In rejecting the Company's proposal to include not yet built plant in rate base, we do not need to consider the Company's phased-in rate increase.

Commission has not considered the allocation "used and useful" to customers. The Company had been unable to use its CAP allocation because there is no means for delivering the allocation from the CAP facilities to Vail's service territory on the other side of Tucson. Vail proposes to join a replenishment district to receive credits for its CAP allocation, which it can then use to withdraw groundwater from a designated well in its service area. The CAP water will be recharged at a location 60 miles from Vail, but within the same Active Management Area ("AMA"). According to the Company, the water will initially serve existing customers north of Colossal Road as well as provide backup water for a planned golf course.[4] The recharge program will also provide the necessary Assured Water Supply ("AWS") designation for a development of 3,300 homes, a high school, 110 acres of commercial development and 40 acres of industrial development.

Staff believed that it is important for Vail to retain its CAP allocation as long as it is eventually delivered to Vail customers. This can only happen after an infrastructure is built within the Tucson AMA that will allow for the transport of CAP water to the Vail service territory. In the interim, Staff believed that Vail should be allowed to recharge its allocation at a remote location within the Tucson AMA and recover the associated costs.

Because the Company's CAP allocation is greater than the water currently being utilized by its customer base, Staff opined that current customers should not be charged the entire CAP expense of $84,888. Because current customer demand amounts to approximately 23.81 percent of the CAP allocation, the Company should only be allowed to recover that percentage, or $19,277, of the expense from current customers by means of a CAP Service Fee based on customer usage. Under Staff's recommendation, the balance of the annual CAP costs, or $61,681, would be recovered by means of a CAP Hookup Fee for all new line extensions and subdivisions.

Staff recommended the Commission approve a CAP Service Charge of $0.32 per 1,000 gallons of usage. The CAP Service Charge would apply to all customers on the north system from the date of the Order, and apply to all customers once the north and south systems are interconnected. Staff recommended that the CAP Service Charge be segregated in an interest bearing account and

[4] The golf course will normally use surface water not owned by the Company.

used solely for the purpose of paying CAP holding and M & I expenses. Under Staff's proposal, when Vail pays its CAP allocation, payment must be tendered from the CAP cash account and the Company will not be allowed to expense more than $19,277 on its income statement each year.

Staff also recommended a CAP Hook-up Fee that would apply to all new subdivision and line extension agreements. Staff recommended twelve conditions on the implementation of the Hookup Fee. One of the recommendations was that the funds received from this fee should be deposited into the segregated CAP account. Under Staff's plan, the funds from the CAP Hook-up Fee should be booked as a deferred credit. According to Staff, the treatment of the hook-up fee as a deferred credit will allow a mechanism for tracking the fees. Staff did not recommend that all of the CAP expenses be recovered on the income statement and believed that for purposes of matching revenue and expenses, the CAP Hook-up Fees should not be treated as revenue. Staff proposed a CAP Hook-up Fee schedule that ranged from $1,000 for a 5/8 inch meter to $250,000 for a 12 inch or larger meter.

The Company accepted the amount of Staff's proposed CAP Hook-up Fee, but disagreed with Staff's proposal that the CAP Hook-up Fee be booked as a deferred credit. Vail argued that neither the revenue from the hook-up fee, nor the expense of the purchased water, is a deferred credit. The Company also asserted that accounting for the Hook-up Fee as a deferred credit was an unnecessary accounting nightmare. Vail thought that Staff's only justification for treating the fees as a deferred credit was to avoid possible over-earning. Vail argued that Staff could bring the Company in for rate review if the Company does over-earn. Under the Company's proposal, the CAP Hook-up Fees would be treated as revenue and the entire CAP Expense would be allowed to be recovered in operating expenses.

We believe that the more reasonable approach is to treat the CAP Hook-up Fee as revenue when it is received. As a result, the entire $84,888 CAP expenses is allowed as an expense. Of this amount, approximately $19,277 will be recovered from ratepayers by means of the $.32 per 1,000 gallon CAP Service Charge, $3,930 from the farm using the CAP allocation, and the remaining approximate $62,000 by means of the CAP Hook-up Fees as Staff proposed. All funds received as a result of the CAP Service Charge and the CAP Hook-up Fee will be deposited in an interest bearing segregated account and used solely for CAP-related expenses. In the event the Company receives more than $84,888 in any year from any combination of the foregoing, the funds will remain in the segregated account and may be utilized for capital projects related to developing a delivery system for the direct use of CAP water in Vail's service territory, as contemplated by Staff, or will be refunded to customers. By segregating the funds and designating that they be used solely for CAP – related expenses and capital items, Staff's concerns about potential over-earning should be alleviated. As a further control, we will require Vail to submit annual reports commencing January 31, 2001, with the Director of the Utilities Division, detailing all deposits and expenditures from the CAP account. If in Staff's or Vail's opinion, the amounts accumulating in the CAP account are excessive, either Staff or Vail may request the Commission order the refund of the excess amounts to Vail's customers and may request an adjustment of the CAP Service Charge Fee or CAP Hook-up Fee. We also adopt Staff's conditions on the implementation of the CAP Hook-up Fee as delineated in the Engineering Staff Report.

Depreciation

Because we are accepting Staff's position concerning the amount of plant in rate base, we adopt Staff's Depreciation Expense amount of $48,327. The Company's proposed Depreciation Expense was based upon the assumption that the not-yet-built plant would be included in rate base.

Property Taxes

Vail advocated that Property Tax Expense should be determined on a prospective basis using the Department of Revenue calculation methodology and based upon projected plant and revenue. Staff argued that the Property Tax Expense should be based upon the most recent property tax bill, in this case the 1999 bill in the amount of $20,609. Vail proposed a Property Tax Expense of $38,541 which was based upon projected plant balances, including plant to be financed with the WIFA loan and which is not yet constructed. Vail's plant balances are too speculative at this time to be utilized in the calculation of Property Tax Expense. Consequently, we adopt Staff's recommended Property Tax figure of $20,609.

Revenue Requirement and Rate Design

Staff and the Company agreed that a revenue level that would produce a DSC of 1.2 is appropriate in this case. They disagreed, however, on how to calculate the DSC ratio. Vail argued that the DSC calculation should include meter deposit refunds and repayment of Advances in Aid of Construction. Staff did not include these obligations in its calculation because it believed that to do so would violate the standard that rates should only reflect the cost of service and because to recover 1.2 times the advance payments would negate the purpose of the advances as a cost-free source of capital. We agree with Staff, for the reasons stated, that these obligations should not be included in the DSC calculation. We are concerned, however, that Vail have sufficient cash flow to meet its legal obligations. Therefore, we will provide revenues sufficient to provide a DSC of 1.4.

We calculate Vail's revenue requirement as follows:

Debt Service Requirement	$ 74,818
•	1.4
	$104,745
Less Depreciation and Amortization	$ 52,021
Operating Income	$ 52,724
Operating Expenses	$448,452
Required Revenue	$501,176

The rates and charges we approve herein produce total revenues of $497,246, as follows:

Metered Water Sales	$359,557
Miscellaneous Revenues	3,341
CAP Service Charge	19,277
CAP Recharge Income	3,930
CAP Hook-up Fees	62,000
WIFA Surcharge	53,132
Total Revenues	$501,237

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Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. On June 18, 1999, Vail filed with the Commission a rate application and a finance

application.

2. On July 19, 1999, Staff filed a letter notifying the Company that its application met the sufficiency requirements outlined in A.A.C. R14-2-103 and classifying the Company as a Class C utility.

3. By Procedural Orders dated September 28, 1999 and October 20, 1999, the Commission consolidated the matters.

4. A hearing on the consolidated matters was held in Tucson, Arizona on February 3 and 4, 2000, pursuant to the schedule established by Procedural Order dated August 19, 1999.

5. Prior to the commencement of the hearing, Monique Davis, a residential customer of Vail, was granted intervention.

6. At the end of the TY, Vail provided water utility service to approximately 594 customers. As of November 30, 1999, the Company provided service to approximately 771 customers.

7. In its finance application, Vail requested authority to borrow $819,000 from WIFA for the purpose of constructing necessary upgrades to its system. The Company also requested authority to issue long–term notes to shareholders in the amount of $58,340 for the purpose of financing the purchase of a new truck and for capitalized engineering costs.

8. The Company requested approval of rates that would generate total revenues of $548,685, to be phased in over approximately one year.

9. The Company requested authorization to borrow $819,000 from WIFA to finance necessary system improvements including a chlorination facility at Well No. 6, rebuilding and upgrading boosters, the installation of 6,600 feet of 12 inch main to replace under-sized 6 inch main, and the interconnection of Well No. 6 with the south system.

10. Staff considered the proposed improvements to be necessary and important to improving the reliability and quality of service to all customers, and also believed that the cost estimates were reasonable. Staff recommended approval of the WIFA loan in the amount of $819,000.

11. Staff recommended that the shareholder loans not be approved because with the

proposed $819,000 WIFA loan, Staff believed the Company would be too highly leveraged.

12. In Decision No. 62241 (January 12, 2000) the Commission approved an extension of Vail's CC&N and approved an Annexation Participation Agreement between Vail and the property owners in the extension area. Pursuant to the Annexation Participation Agreement, the extension area land owners would provide $175,000 to pay for upgrades to Well Nos. 3 and 6 and to provide trenching to loop the two wells plus the costs of any boosters, pumps, electrical and water required to complete the upgrades.

13. The improvements to Well Nos. 3 and 6 and the looping of the system that are going to be financed by the property owners in the recent extension area are some of the same improvements for which the Company has sought financing from WIFA.

14. It is reasonable and prudent to reduce the amount of funds borrowed from WIFA by the amount of funds received pursuant to the Annexation Participation Agreement.

15. In light of the reduced WIFA borrowing, it is reasonable and prudent to approve the shareholder loans in the amount of $58,340.

16. Vail's current rates and charges produced adjusted gross revenues of $343,697, which in conjunction with operating expenses of $461,201, produced an operating loss of $117,504 during the TY.

17. Vail's OCRB is determined to be $134,716.

18. Vail waived the filing of a reconstruction cost new rate base, and as a result, its Fair Value Rate Base ("FVRB") is the same as its OCRB.

19. Under the circumstances a total revenue requirement premised on a DSC of 1.4 is just and reasonable.

20. Operating income of $52,724 is required to yield a DSC of 1.4.

21. Operating income of $52,724 results in a 39.1 percent rate of return on FVRB.

22. Vail's total revenues must increase $157,540 over adjusted TY revenues to produce operating income of $52,724.

23. The rates and charges approved herein increase the average monthly residential bill

23.4 percent, from $42.52 to $52.48.[5]

24. Vail is in full compliance with the regulations of the Arizona Department of Environmental Quality, current with its property taxes and in compliance with Commission filing requirements and Orders.

25. Staff recommended approval of, and Vail agreed to, a CAP Hook-up Fee to be applied to new hook-ups under the following conditions:

a. The tariff would apply to all new subdivisions and line extension agreements that are approved for the north system from the end of the 1998 TY forward. Once the interconnection is completed between the north and south systems, the tariff would apply to all new subdivisions and line extension agreements in the combined north and south systems;

b. Vail must be recharging Cap water within 6 months of this Decision;

c. All CAP Hook-Up Fees and CAP Service charges are to be placed in a separate interest bearing account;

d. Revenue collected from the CAP Hook-up Fee and CAP Service Charge can only be used for payment of the CAP holding fee and Municipal and Industrial costs;

e. The CAP Service Charge shall be identified as a separate line item charge on the customer bill;

f. Final plans for the direct use of CAP water within Vail's service territory are to be submitted to the Commission no later than December 31, 2010;

g. Vail must directly use the CAP allocation within its service territory by December 31, 2015;

h. No time extensions will be allowed for any reason;

i. Vail shall submit annual reports to the Utilities Division Director detailing the progress of plans to use CAP water directly in its service territory and plans for actual construction of any necessary facilities. The reports shall be submitted each July 1, beginning in 2001;

j. If Vail does not comply with either of the timeframes in f or g, all CAP charges will cease at that time and any monies remaining in the CAP account shall be refunded in a manner to be determined by the Commission at that time;

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[5] For comparison, the Company's proposed rates would increase the average monthly residential bill 36.7 percent, from $42.52 to $58.15, and Staff's recommended rates would increase the average monthly residential bill by 23 percent, from $42.52 to $52.29.

k. The Commission shall allow Staff to automatically impose fines and/or other sanctions against Vail if the timeframes in item f or g are not met;

l. If Vail does not comply with the timeframes in items f or g and it sells its CAP allocation, any net profit shall be distributed to the customers in a manner to be determined by the Commission; and

m. Vail should submit annual reports regarding the amount of CAP Hook-up Fee and CAP Service Fees collected. The reports should be submitted by each January 31 and cover the previous calendar year, The first report should be submitted by January 31, 2001, and should contain the following information:

i. The name of each entity paying a CAP Hook-up Fee;
ii. The amount of CAP Hook-up Fee each entity paid;
iii. The amount of CAP Service Charge collected;
iv. The balance in the CAP trust account;
v. The amount of interest earned in the CAP trust account;
vi. The amount of money spent from the CAP trust account; and
vii. A description of what was paid for with monies from the CAP trust account.

26. In the TY, Vail suffered a water loss of 16 percent, which is higher than the recommended maximum rate of 10 percent. Staff recommended that the Company reduce its water loss to less than 10 percent within one year of this Decision, and that if water loss cannot be reduced to less than 10 percent, Vail must submit justification to the Director of the Utilities Division as to why doing so would not be cost effective.

27. Staff recommended that each month Vail deposit a monthly WIFA surcharge per customer in an interest bearing account to be used solely for the purpose of servicing the WIFA debt. Based upon our authorization to borrow $644,000 from WIFA, Vail shall collect a WIFA surcharge of $6.92 per customer per month ($67,946/818 customers).

28. It is reasonable that the WIFA surcharge approved herein be deposited in a segregated interest bearing account and be interim and subject to refund in the event Vail fails to make the capital improvements set forth in its finance application by September 1, 2001.

29. Staff further recommended a provision be included in the Company's tariff to allow for the flow-through of all appropriate state and local taxes as provided for in A.A.C. R14-2-409(D)(5).

CONCLUSIONS OF LAW

1. Vail is a public service corporation within the meaning of Article XV of the Arizona

Constitution and A.R.S. §§40-250, 40-251, 40-301 and 40-302.

2. The Commission has jurisdiction over Vail and the subject matter of this proceeding.

3. Notice was provided as required by law.

4. The rates and charges approved herein below are just and reasonable and should be adopted.

5. The proposed WIFA financing in the amount of $644,000 and shareholder loans in the amount of $58,430 are for lawful purposes within Vail's corporate powers, is compatible with the public interest, with sound financial practices, and with proper performance by Vail of service as a public service corporation, and will not impair Vail's ability to perform that service.

6. The financing approved herein is for the purposes stated in the application and is reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably chargeable to operating expenses or income.

7. Staff's recommendations set forth in Findings of Fact Nos. 25, 26, 27 and 29 and Findings of Fact No. 28 are reasonable, except that paragraph 25k is not warranted and pursuant to paragraph 25d, funds collected from CAP Hook-up Fees may be used for CAP-related capital projects; and paragraph 25h should be modified to provide no time extensions will be allowed absent a showing of good cause.

ORDER

IT IS THEREFORE ORDERED that Vail Water Company is hereby authorized and directed to file with the Commission on or before April 28, 2000, a revised rate schedule setting for the following rates and charges:

MONTHLY SERVICE CHARGE	
5/8 x 3/4 Inch Meter	$ 13.18
3/4 Inch Meter	21.00
1 Inch Meter	40.50
1 1/2 Inch Meter	89.20
2 Inch Meter	147.70
3 Inch Meter	284.20
4 Inch Meter	479.20
6 Inch Meter	966.70
WIFA Surcharge	6.92
Sprinkler Rate	(a)
Commodity Charge – per 1,000 gallons	$ 4.00
CAP Recovery Fee – per 1,000 gallons	$ 0.32

SERVICE AND METER INSTALLATION CHARGE
Refundable pursuant to A..A.C. R14-2-405

5/8 x 3/4 Inch Meter	$ 400.00
3/4 Inch Meter	440.00
1 Inch Meter	500.00
1 1/2 Inch Meter	675.00
2 Inch Meter - Compound	1,660.00
3 Inch Meter - Compound	2,150.00
4 Inch Meter - Compound	3,135.00
6 Inch Meter - Compound	6,190.00

SERVICE CHARGES

Establishment	25.00
Establishment – After Hours	50.00
Reconnection (Delinquent)	30.00
Reconnection (Delinquent/After Hours)	35.00
NSF Check	25.00
Meter Reread (If correct)	15.00
Meter Test (If correct)	30.00
Deposit	(b)
Deposit Interest	(b)
Re-Establishment (Within 12 months)	(c)
Re-Establishment (Within 12 months After Hours)	(d)
Deferred Payment – Per Month	1.50%
Late Payment Penalty - Per Month	1.50%
Moving Customer Meter (Customer Request)	Cost
Illegal Hook-up	(e)
Transfer Fee	25.00

(a) Higher of $5.00 per month or 1.0 percent of monthly minimum
(b) Per Commission rule A.A.C. R14-2-403(B)
(c) Months off system time monthly minimum per A.A.C. R14-2-403(D)
(d) Months off system time monthly minimum per A.A.C. R14-2-403(D), plus $25.00
(e) Estimated billings from time illegal connection was made to date

IT IS FURTHER ORDERED that Vail Water Company shall file a CAP Hook-up Fee Tariff that conforms to the Tariff Schedule contained in the Engineering Staff Report filed in this proceeding. The CAP Hook-up Fee shall be effective on the north system as of the effective date of this Order and applicable to the entire system after the interconnection of the north and south systems is complete.

IT IS FURTHER ORDERED that such rates and charges shall be effective for all usage on and after May 1, 2000.

IT IS FURTHER ORDERED that Vail Water Company shall notify its customers of the increased rates and charges authorized herein and the effective date of same as part of its next regularly scheduled billing.

IT IS FURTHER ORDERED that Vail Water Company shall file a copy of the notice of rates and charges approved herein and sent to its customers with the Director of the Utilities Division within 30 days from the effective date of this notice.

IT IS FURTHER ORDERED that Vail Water Company is authorized to borrow from the Water Infrastructure Finance Authority of Arizona up to $644,000 for 20 years at an annual interest rate of 6.2550 percent and up to $58,430 from shareholders for a term of 20 years at an annual interest rate of 10.25 percent.

IT IS FURTHER ORDERED that Vail Water Company is hereby authorized to engage in any transactions and to execute any documents necessary to effectuate the authorization granted herein above.

IT IS FURTHER ORDERED that such financing authority shall be expressly contingent upon Vail Water company's use of the proceeds for the purposes set forth in the finance application.

IT IS FURTHER ORDERED that approval of the financing set forth herein above does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that Vail Water Company shall file with the Director of the commission's Utilities Division within 30 days of finalization, a copy of all loan documents which sets forth the terms of the proposed long-term debt if not previously filed.

IT IS FURTHER ORDERED that Vail Water Company shall comply with the recommendations, as modified, set forth in Findings of Fact Nos. 25, 26, 27 and 29.

IT IS FURTHER ORDERED that the WIFA surcharge approved herein shall be deposited into a segregated interest bearing account and used solely to repay the WIFA indebtedness and shall be interim and subject to refund in the event Vail Water Company fails to complete the improvements set forth in its finance application by September 1, 2001.

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IT IS FURTHER ORDERED that Vail Water Company shall file a rate case no earlier than twelve months or longer than eighteen months after the completion of the plant to be installed pursuant to this Order.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 14th day of April, 2000.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT ______________

DECISION NO. 62450

SERVICE LIST FOR: VAIL WATER COMPANY

DOCKET NOS. W-01651B-99-0351
W-01651B-99-0406

Richard L. Sallquist, Esq.
SALLQUIST & DRUMMOND, P.C.
2525 E. Arizona Biltmore Circle, Suite 117
Phoenix, Arizona 85016
Attorneys for Vail Water Company

Lawrence V. Robertson
Munger Chadwick, PLC
National Bank Plaza
333 N. Wilmot, Suite 300
Tucson, Arizona 85711

Monique Davis
3240 E. Calle Agassiz
Vail, Arizona 85641

Lyn Farmer, Chief Counsel
LEGAL DIVISION
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

Deborah Scott, Director
Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007